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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

July 27, 1999

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th St. SW
Washington, D.C. 20554

Re: EX PARTE in CC Docket No. 96-262

Dear Ms. Salas:

On July 26, 1999, MCI WorldCom and AT&T met with Commissioner Susan Ness and her common carrier assistant, Linda Kinney, to discuss the above-captioned docket, and a pending decision concerning additional pricing flexibility for incumbent local exchange carrier (ILEC) access charges. Jonathan B. Sallet and I represented MCI WorldCom. Leonard J. Cali and Joel Lubin represented AT&T.

The purpose of the meeting was to review the attached presentation. MCI WorldCom and AT&T stated that a grant of broad pricing flexibility to ILECs is premature, and noted the fundamental problems with collocation measures as an indicator of competition for special access and dedicated transport. The companies offered their joint views of the actions the Commission could take, without harming the access customers or competitors, and the conditions that would need to accompany a Commission decision to grant additional flexibility.

Sincerely,


Mary L. Brown

CC: Linda Kinney
Tamara Preiss
Leonard J. Cali, AT&T

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List A B C D E

ILEC Pricing Flexibility

MCI WorldCom & AT&T

July 26, 1999

Premature to address ILEC pricing flexibility

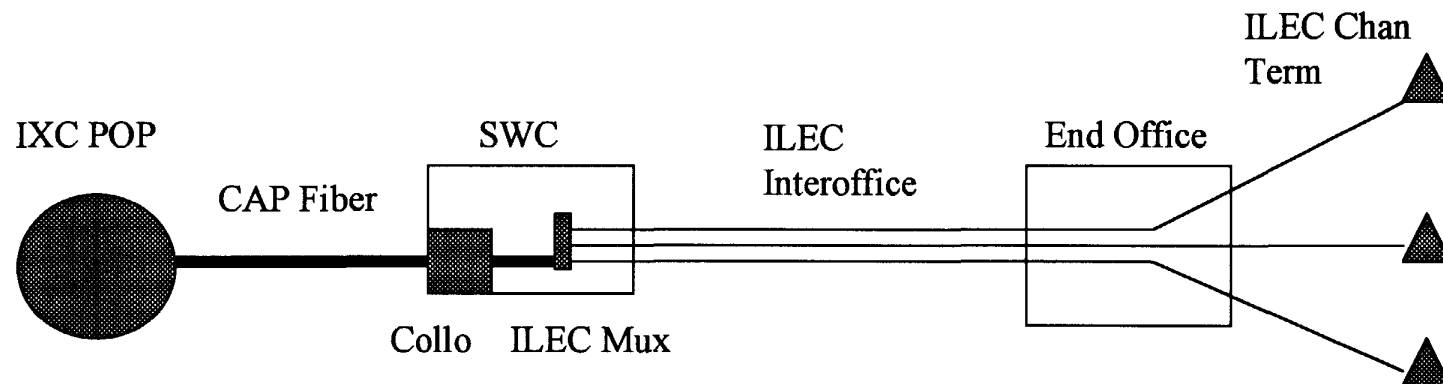
- ILEC pricing flexibility should not be addressed until the Commission completes work on access reform, universal service and Section 319 remand proceeding.
- However if flexibility is granted it must be limited in scope
 - Should be limited to creating a framework for special access/transport contract pricing
 - Premature to address the removal of special access/transport services from price cap regulation
 - Premature to address switched access pricing flexibility

ILEC pricing flexibility is inappropriate absent substantial competition

- Special access is not substantially competitive, and there remain persistent, substantial barriers to competition.
 - limits to alternative facility scope and capacity
 - ILEC operational issues
 - termination liabilities
 - anticompetitive practices

The special access market is not substantially competitive

- Competitive supply is generally limited to entrance facilities



- Few circuits can be provisioned entirely on competitive facilities (fewer than 5-10% of special access locations)
- A contract pricing “trigger” that could be achieved under current competitive conditions would clearly be inadequate

Pricing behavior and market share confirm ILEC market power

■ Pricing behavior:

- ILECs continue to price trunking basket services at cap**
- ILEC special access rates are largely unchanged since 1996, even in Zones 1 and 2**

■ Market share:

- IXC and Data CLECs report that ILECs continue to represent 80-90% of high-cap costs**
- 96% of switched transport minutes use ILEC transport**
- ILEC special access revenues increased at a near-record rate in 1998**

Collocation is not a measure of competition



- Collocation does not measure competition nor the potential for competition;
- A collocation-based trigger would not require the ILEC to demonstrate the availability of unbundled loops;
- Collocation does not necessarily provide evidence of competitive supply for interoffice transport;
- A simple trigger based on the number of offices with collocation does not test for effective competition;
- A collocation-based trigger does not address the barriers that customers face to rolling circuits.

Conditions for additional ILEC special access pricing flexibility

- **Contract tariffs only for entrance facilities and interoffice transport, NOT channel terminations**
 - No route specific contracts
 - Contract tariffs are outside of price caps
 - 15 days' notice
- **Unlimited ability to order channel terminations into a competitor's collocation cage**
- **Channel term remains subject to price caps**
- **Separate service band index for multiplexing**
- **No lower formula adjustment mechanism for trunking basket**
- **Freedom from termination liabilities**

Additional safeguards



- Affiliate protections must be in place
- Proven record of performance with respect to UNEs, collocation, and other market-opening requirements

Issues for Further Notice



- “Trigger” for channel termination flexibility
- ILEC switched access flexibility

Appendix A

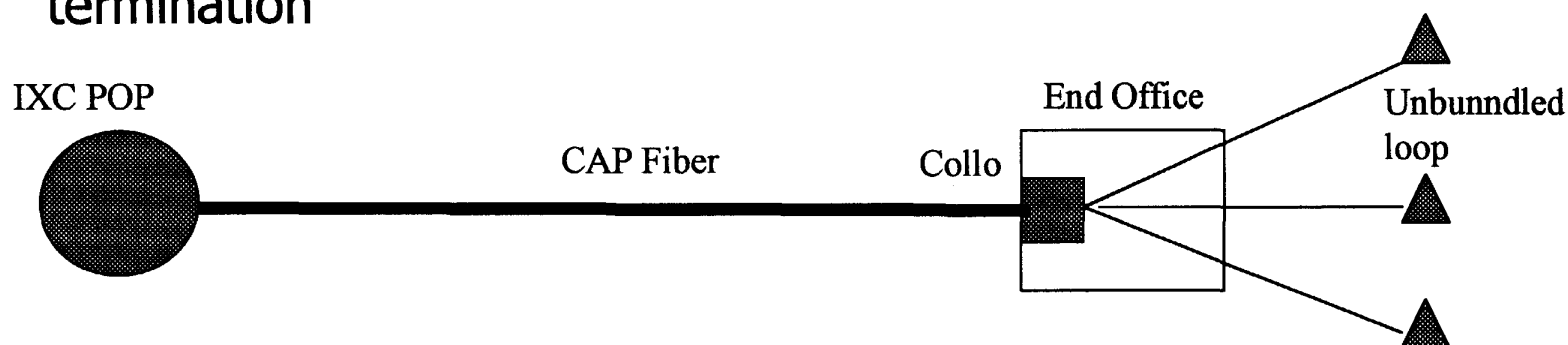
**Collocation is not a
measure of competition**

Collocation is not a measure of competition

- Collocation does not measure competition nor the potential for competition.
 - interoffice transport; or
 - special access terminations
- The appropriate measure is units of competitive facilities
 - competition test should be both bright line and accurate; collocation is “bright” but inaccurate
 - Need accurate measures of competitive facilities for
 - POP to LSO
 - LSO to premises

Problems with a collocation-based “trigger”

- A collocation-based trigger would not require the ILEC to demonstrate the availability of unbundled loops
 - When competitive special access circuits are provided via collocation, competitors need unbundled loops to provide the channel termination



- Unbundled loops must be available at TELRIC, geographically deaveraged; demonstration of functional OSS

Problems with a collocation-based “trigger” (2)

- Collocation does not necessarily provide evidence of competitive supply for interoffice transport
 - Many offices with collocations do not have competitive transport
 - Even when there is CAP fiber, capacity may not be available
 - Even when there is CAP fiber, CAPs usually provide services only at DS3 and above, not at the DS1 level
 - Trigger does not test for the availability of unbundled transport

Problems with a collocation-based “trigger” (3)

- A simple trigger based on the number of offices with collocation does not test for effective competition
 - multiple wire centers will have no competitors
 - other wire centers may have only one competitor
 - each CAP's network will have limited scope; customers face operational issues in combining facilities from multiple CAPs
 - compare with the level of competition in the LD market in 1991: Two nationwide competitors to AT&T

Problems with a collocation-based “trigger” (4)

- A collocation-based trigger does not address the barriers that customers face to rolling circuits
 - some ILECs do not permit IXC's to submit DS3-level ASRs
 - some ILECs assess NRCs for each DS0 or DS1 circuit riding the DS3
 - termination liabilities

Appendix B

Contract Tariffs

Contract tariff rules

- Based on Section 61.55, but:
 - No route-specific contracts (codifying prohibition against geographic restrictions in AT&T contracts)
 - ILEC contract tariffs must show element-level detail: rate elements included in the contract (e.g., DS1/DS3, entrance/interoffice/channel termination/multiplexer), quantities, mileage, rate for each element
- Contract tariffs should be filed on 15 days' notice
 - Allows opportunity for meaningful tariff review